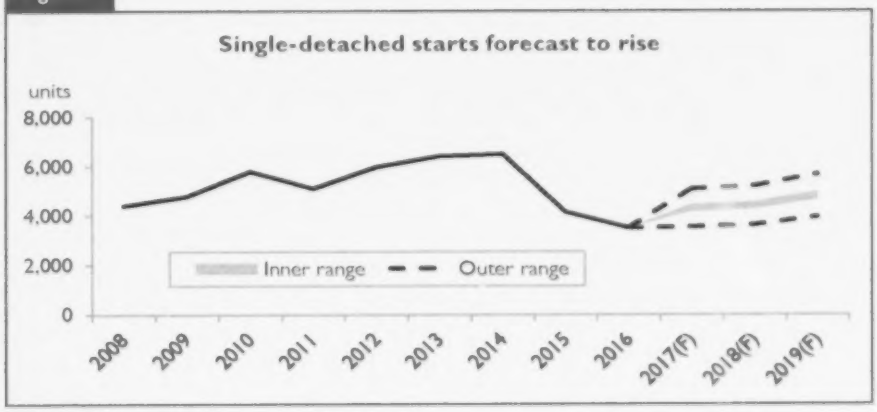
HOUSING MARKET OUTLOOK

Calgary CMA

CANADA MORTGAGE AND HOUSING CORPORATION

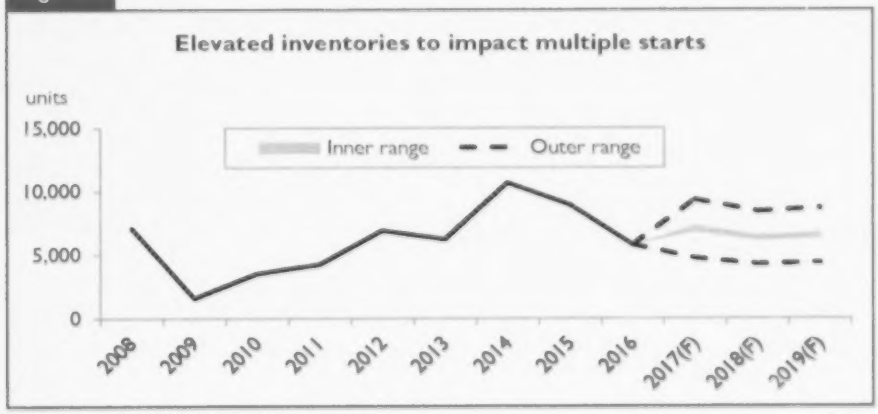
Date Released: Fall 2017

Figure 1



Source: CMHC, CMHC Forecast (F)

Figure 2



Source: CMHC, CMHC Forecast (F)

Highlights[1]

- Total housing starts in 2018 are forecast to decline due to elevated inventories.
- MLS® sales are forecast to increase modestly in 2018 and 2019.
- The purpose-built apartment vacancy rate is expected to decline from record levels.

New Home Market: Elevated inventories expected to hold back total housing starts in 2018

New home construction in the Calgary Census Metropolitan Area (CMA) started to recover in 2017 and is on pace to surpass 2016 levels. The price for oil increased, labour market conditions improved and population growth continued to make positive gains. While economic and demographic fundamentals are expected to strengthen over the forecast horizon, total housing starts are anticipated to moderate in 2018 due to elevated inventories, before making gains in 2019.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Canada

CMHC SCHL

Figure 3

Source: CREA, CMHC Forecast (F)

Following 2016 when single-detached starts declined to their lowest level since 1988, new construction is forecast to improve in 2017 and continue rising in 2018 and 2019. Job growth and relatively low mortgage rates have supported demand for new homes. In addition, single-detached active listings in the beginning of the year had declined, providing another opportunity to increase housing starts. The population in Calgary is projected to steadily rise over the next couple of years, with gains in employment and incomes also expected.

Multiple starts which include semi-detached, row and apartment units, have been strong in 2017, but the pace of construction is not expected to be maintained in 2018 and 2019. The number of completed and unsold units has been increasing for the last couple of years and reached a record high in the spring of 2017. While inventories have been gradually declining since then, they will likely remain above historical averages going into 2018. New units will also be competing with a healthy supply of active listings in the resale market, giving downsizers, investors and first-time home buyers plenty of options. The construction of new multiple projects will be scaled back until the excess supply on the market is absorbed.

Figure 4

Source: CREA, CMHC Forecast (F)

Resale market: Gradual shift from buyers' to balanced conditions

After two consecutive years of decline, MLS® residential sales are forecast to rise in 2017. Relatively low mortgage rates, growth in full-time positions, and improved consumer sentiments have helped support the increase in resale activity. In 2018 and 2019, demand for resale housing will continue to rise, driven by improving economic conditions. Both employment and population are anticipated to increase, albeit modestly, over the next couple of years. As such, sales are forecast to gradually rise in 2018 and 2019.

The average MLS® residential price in 2017 is on pace to increase for the second consecutive year. However, the increase will be largely due to a greater proportion of sales in higher price ranges. Activity from move-up buyers, and downsizers has picked-up

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compared to first-time home buyers. While resale market conditions in 2017 have favoured the buyer, the market is expected to shift to more balanced conditions in 2018 and 2019. As such, the upward pressure on house prices will increase over the forecast period.

Rental Market: Rents to stabilize as vacancy rates decline

The vacancy rate in the purpose-built rental market is forecast to decline modestly. While economic conditions have helped improve rental demand, rental supply in both the purpose-built and secondary rental markets, is expected to rise. This will limit the decline in the vacancy rate in 2017. In 2018 and 2019, the vacancy rate is forecast to continue moving lower. Net migration will increase as labour market conditions strengthen, while the additions to rental supply moderate over this period.

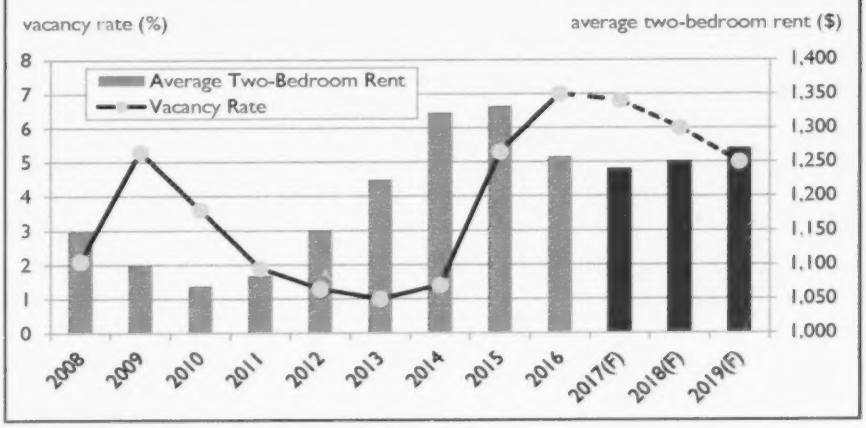
The average two-bedroom rent in 2017 is expected to decline for the second consecutive year, but not to the same extent as in 2016. Landlords and property owners have been adjusting rents and offering incentives as vacancy rates have been elevated. With lower vacancy rates and stronger rental demand in 2018 and 2019, average two-bedroom rents will start to stabilize and move higher.

Economic trends: Employment forecast to rise, following a decline in 2016

After a decline in 2016, employment levels in Calgary are forecast to rebound in 2017. A majority of the job growth thus far has been in the service-producing sectors as opposed to the energy sector. Many oil and gas companies in Calgary have been cautious about hiring new staff and expanding payrolls. Employment is anticipated to improve further in 2018 and 2019. Higher oil prices and increased investments in the energy industry will contribute to a lift in economic activity and support job growth across various sectors.

Figure 5

Apartment rents forecast to stabilize as vacancy rates decline



Source: CMHC, CMHC Forecast (F) October Surveys

Population growth in Calgary is forecast to increase in 2017, but at a slower rate compared to the previous year. Elevated unemployment rates and stronger labour market conditions in other regions in Canada will contribute to a decline in migration. Interprovincial migration in particular has been weak, but is expected to gradually recover over the next couple of years as economic conditions strengthen. The majority of migrants will still come from other countries. Population growth is forecast to rise in 2018 and 2019.

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

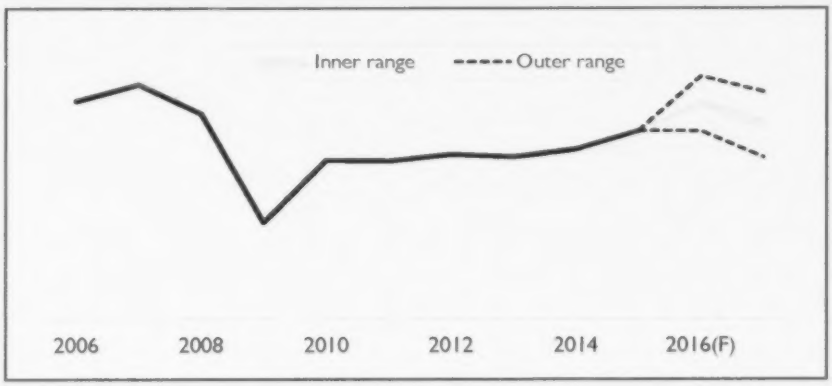
In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Calgary CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	6,494	4,138	3,489	4,100	4,500	4,200	4,600	4,600	5,000
Multiples	10,637	8,895	5,756	6,700	7,300	6,000	6,500	6,300	6,700
Starts - Total	17,131	13,033	9,245	10,700	11,900	10,200	11,200	10,700	11,900
Resale Market									
MLS® Sales	33,615	23,994	22,522	23,000	24,600	23,300	24,900	23,700	25,300
MLS® Average Price($)	460,584	453,814	463,047	468,800	474,200	477,300	482,700	487,200	492,800
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	1.4	5.3	7.0	6.8	6.0	5.0
Two-bedroom Average Rent (October)($)	1,322	1,332	1,258	1,240	1,250	1,270
Economic Overview						
Population	1,401,747	1,433,572	1,469,341	1,495,600	1,523,700	1,554,600
Annual Employment Level	799,500	815,800	803,400	832,200	845,600	862,600

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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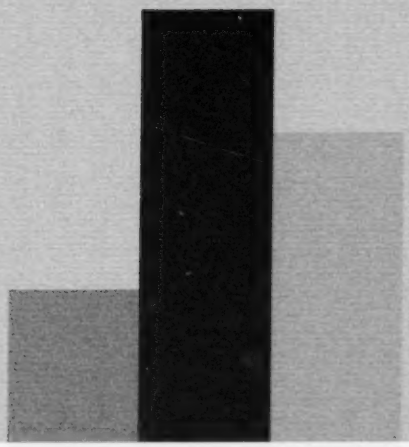

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